Supreme Court, U.S.
FILED
AUG 2 2000
CLERK

No. 99-804

In the Supreme Court of the United States

CARL W. CLEVELAND,
Petitioner,

v.

UNITED STATES,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF OF AMICUS CURIAE SAMSUNG ELECTRONICS CO., LTD. IN SUPPORT OF THE UNITED STATES

RICHARD L. STANLEY
HOWREY SIMON ARNOLD & WHITE, LLP
750 Bering Drive
Houston, Texas 77057
(713) 787-1400

CECILIA H. GONZALEZ
HOWREY SIMON ARNOLD & WHITE, LLP
1299 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 783-0800

DAVID J. HEALEY
Counsel of Record
GARY J. FISCHMAN
LISA S. MCCALMONT
GOLDSTEIN & HEALEY L.L.P.
1177 West Loop South, 10th Floor
Houston, Texas 77027
(713) 877-1515

Attorneys for Amicus Curiae Samsung Electronics Co., Ltd.

TABLE OF CONTENTS

INTEREST OF AMICUS CURIAE 1

SUMMARY OF ARGUMENT 4

ARGUMENT 5

I. At A Minimum, The Incidents Of Property Held By The Government In Unissued Grants Depend On The Nature Of The Grant 5

A. An Income Interest/Proprietary Interest In The Activity Conducted Under The Grant Establishes A Property Interest In The Grant 8

B. The Work Investment In Creation Of The Right Establishes A Property Interest 9

C. The Exchange Of Bargained-For Consideration Establishes A Property Interest 10

II. Patents Are A Special Form Of Governmental Grant And Exemplify Why The 'Character' Of The Grant Is Key To Determining Its Property Interests 11

CONCLUSION 14

TABLE OF AUTHORITIES

Page(s)

Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,
489 U.S. 141 (1989) 11

Borre v. United States,
940 F.2d 215 (7th Cir. 1991) 7, 12

Hartford-Empire Co. v. United States,
323 U.S. 386 (1945) 10

Mylan Laboratories, Inc. v. Matkari,
7 F.3d 1130 (4th Cir. 1993) 6

Semiconductor Energy Laboratory, Co. v. Samsung Electronics Co., et al.,
204 F.3d 1368 (Fed. Cir. 2000) 2, 10

Toulabi v. United States,
875 F.2d 122 (7th Cir. 1989) 6

United States v. Adler,
186 F.3d 574 (4th Cir. 1999) 5

United States v. Bucuvalas,
970 F.2d 937 (1st Cir. 1992) 6, 7

United States v. Dadanian,
856 F.2d 1391 (9th Cir. 1988) 6

United States v. DeFries,
43 F.3d 707 (D.C. Cir. 1995) 8, 12

United States v. Granberry,
908 F.2d 278 (8th Cir. 1990) 6

United States v. Martinez,
905 F.2d 709 (3d Cir. 1990) 5, 6

United States v. Murphy,
836 F.2d 248 (6th Cir. 1988) 6

United States v. Novod,
923 F.2d 970,
rev'd in part on other grounds,
927 F.2d 726 (2d Cir. 1991) 9, 11

United States v. Salvatore,
110 F.3d 1131 (5th Cir. 1997) 5, 6, 7, 8

United States v. Schwartz,
924 F.2d 410 (2d Cir. 1991) 6, 9

United States v. Shotts,
145 F.3d 1289 (11th Cir. 1998),
cert. denied, 525 U.S. 1177 (1999) 6

CONSTITUTION AND STATUTES

UNITED STATES CONSTITUTION, art. I, § 8 11

28 U.S.C. § 1498 12

35 U.S.C. § 154 11

OTHER AUTHORITIES

Brief *Amicus Curiae* Of The Chamber Of Commerce Of The United States In Support Of Neither Party, *Cleveland v. United States* (filed in the Supreme Court June 1, 2000) (No. 99-804) 3

Brief For The Petitioner, *Cleveland v. United States* (filed in the Supreme Court June 1, 2000)

(No. 99-804) 10

Petition for Writ of Certiorari to the Federal Circuit, *Semiconductor Energy Lab. Co. v. Samsung Electronics Co., Ltd., et al.* (filed in the Supreme Court July 25, 2000) (No. 00-138) 2, 3

Petition for Writ of Certiorari, *Semiconductor Energy Lab. Co. v. Samsung Electronics Co., Ltd., et al.* (filed in the Supreme Court July 21, 2000) (00-127) 2

In the Supreme Court of the United States

No. 99-804

CARL W. CLEVELAND,
Petitioner,

v.

UNITED STATES,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF OF AMICUS CURIAE SAMSUNG ELECTRONICS CO., LTD. IN SUPPORT OF THE UNITED STATES

INTEREST OF AMICUS CURIAE[1]

Amicus curiae, Samsung Electronics Co., Ltd., ("Samsung"), is a company involved in the manufacture of digital media, semiconductors, and information and

[1] Pursuant to Rule 37.6 of the Rules of this Court, amicus states that no counsel for a party authored this brief in whole or in part, and that no person or entity other than amicus or its counsel made any monetary contribution to the preparation or submission of this brief. Pursuant to Rule 37.3 of the Rules of this Court, the parties have consented to the filing of this brief, and their consent letters have been filed with the Clerk of the Court.

communications systems.[2] Samsung was a party to a patent infringement lawsuit tried before the United States District Court for the Eastern District of Virginia, which decision was appealed to the United States Court of Appeals for the Federal Circuit. The Federal Circuit decision, styled *Semiconductor Energy Laboratory Co. v. Samsung Electronics Co., Ltd., et al.*, is reported at 204 F.3d 1368. Although Samsung demonstrated that the patent was unenforceable due to inequitable conduct before the Patent and Trademark Office ("PTO"), the Federal Circuit affirmed the dismissal of Samsung's RICO counterclaims for failure of the alleged predicate act of mail fraud. 204 F.3d at 1380. The Federal Circuit concluded that Samsung's mail fraud claims (based on Semiconductor Energy Laboratory's fraudulent misrepresentations in its applications to the PTO) failed because "the PTO has not been defrauded of property." *Id.* On July 25, 2000, Samsung filed a petition for writ of certiorari presenting the question, among others, of whether a patent in the hands of the government is property under the mail fraud statute. *See* Petition for Writ of Certiorari to the Federal Circuit, *Semiconductor Energy Lab. Co. v. Samsung Electronics Co., Ltd.* (No. 00-138).[3]

The Federal Circuit's decision has been cited by the Petitioner in *Cleveland v. United States*, as being related and relevant to the question presented in *Cleveland*. Indeed,

---

[2] Samsung Electronics Co., Ltd. is a publicly traded corporation organized under the laws of the Republic of Korea. It has no parent or publicly traded affiliates as those terms are commonly employed under United States law, and there is no parent or publicly held company owning 10% or more of its stock.

[3] Semiconductor Energy Laboratory Co. petitioned for writ of certiorari on the issue of inequitable conduct. *See* Petition for Writ of Certiorari, *Semiconductor Energy Lab. Co. v. Samsung Electronics Co., Ltd., et al.* (filed July 21, 2000) (00-127).

amicus Chamber of Commerce of the United States has stated that, if the Court upholds the mail fraud conviction in *Cleveland v. United States*, then "*Samsung* was apparently wrongly decided, and RICO liability for inequitable conduct before the PTO should obtain."[4]

Having petitioned for a writ of certiorari to the Federal Circuit relating to that portion of the Federal Circuit's decision that dismissed Samsung's RICO claims, Samsung now files this amicus curiae brief in support of the United States on the related question presented in this case.

One simple way for the Court to resolve the issue in this case is to hold that all unissued licenses and grants should be considered property for the purpose of the mail fraud statute. Indeed, licenses and grants are valuable rights that represent property in the hands of the grantee, and their nature should be no different in the hands of the grantor.[5] Such a rule would discourage all applicants for such grants from submitting false or fraudulent applications to the government. However, if the Court declines to adopt that clear rule, Samsung has an interest in assuring that the Court does not characterize all governmental grants alike. It is particularly important that the Court does not craft a blanket rule equating the government's interest in all types of unissued grants, which include diverse interests such as

---

[4] Brief of the Chamber of Commerce of the United States as Amicus Curiae in Support of Neither Party, at 21-22, *Cleveland v. United States* (filed in the Supreme Court June 1, 2000) (No. 99-804).

[5] The distinction between the character of the grant in the hands of the grantee versus the grantor is particularly irrelevant in the context of the third party pass through fraud that Samsung alleged in its case. *See* Petition for Writ of Certiorari to the Federal Circuit, *Semiconductor Energy Lab. Co. v. Samsung Electronics Co., Ltd.*, at 3, 26 (filed in the Supreme Court July 25, 2000) (No. 00-138).

permits, franchises, licenses and patents. Samsung will limit its arguments in its amicus brief to this topic.

SUMMARY OF ARGUMENT

The Court could hold that all unissued governmental grants are "property" for purposes of mail fraud. Samsung will not address in this amicus brief the argument as to why the character of a grant as property should be no different in the hands of the grantor than that of the grantee. Rather, Samsung will show in this amicus brief that, even if the Court does not so hold, it would be inappropriate to go to the other extreme and group all forms of governmental grant (licenses, franchises, patents, or permits) into a single analytical category. Governmental rights implicated by the issuance of permits can be significantly different from those arising from licenses, franchises or patents. While all licenses and grants have some incidents of property, a state's interest in a permit issued for purely regulatory purposes as a mere ministerial act (e.g., a dog license) is not the same as its interest in a license which affects public safety (e.g., a medical license), manages a finite public resource (e.g., a mineral license), delivers an income interest to the government in the proceeds of the activity conducted under the license (e.g., a video poker license), or issues after a bargained-for exchange of consideration (e.g., a patent). If the Court declines to adopt a rule that all unissued licenses and grants are property in the hands of the government, then the specific incidents of property held by the government should control the analysis of whether fraudulent acquisition of a governmental grant falls within the ambit of the mail fraud statute.

ARGUMENT

I. AT A MINIMUM, THE INCIDENTS OF PROPERTY HELD BY THE GOVERNMENT IN UNISSUED GRANTS DEPEND ON THE NATURE OF THE GRANT

The broad construction that is generally given to "property" should apply with equal force to the mail fraud statute.[6] Some courts have also rejected the artificial distinction sometimes imposed in the analysis of mail fraud claims between property fraudulently acquired versus property fraudulently taken.[7] Both of these factors militate in favor of treating all unissued governmental grants as property.

However, if the Court declines to adopt a rule that all unissued governmental grants are property for purposes of the mail fraud statute, this case alternatively presents the question of when does the government hold sufficient incidents of property in an unissued grant (e.g., a permit, license, franchise or patent) such that the fraudulent acquisition of the grant could constitute a scheme or artifice

---

[6] Some circuits have acknowledged the general principal and "the common sense notion that property is anything in which one has a right that could be assigned, traded, bought, and otherwise disposed of." *United States v. Adler*, 186 F.3d 574, 576 (4th Cir. 1999) (internal quotation and citation omitted) (analogizing the mail fraud statute to the bank fraud statute, but holding alleged victim of wire fraud did not, as a creditor, have property right in any particular fund).

[7] *See, e.g.*, *United States v. Martinez*, 905 F.2d 709, 713 (3d Cir. 1990) (mail fraud "is broad enough to cover a scheme to defraud a victim of something that takes on value only in the hands of the acquirer"); *United States v. Salvatore*, 110 F.3d 1131 (5th Cir. 1997).

to defraud in violation of the mail fraud statute, 18 U.S.C. § 1341. An examination of the circuit court rulings on various licenses show a principled basis, if yet unarticulated, for distinguishing among the various types of governmental grants.

Some circuits have held that licenses are property for purposes of the mail fraud statute. *See, e.g.*, *United States v. Martinez*, 905 F.2d 709, 713 (3d Cir. 1990) (medical licenses), *United States v. Salvatore*, 110 F.3d 1131, 1143 (5th Cir. 1997) (video poker licenses); *United States v. Bucuvalas*, 970 F.2d 937, 945 (1st Cir. 1992) (liquor licenses).

Other circuits have seemingly reached the opposite result. *See, e.g.*, *Toulabi v. United States*, 875 F.2d 122, 125 (7th Cir. 1989) (taxicab licenses); *United States v. Murphy*, 836 F.2d 248, 253-54 (6th Cir. 1988) (charitable bingo permit); *United States v. Dadanian*, 856 F.2d 1391, 1392 (9th Cir. 1988) (gambling licenses); *United States v. Shotts*, 145 F.3d 1289, 1296 (11th Cir. 1998) (bail bond license), *cert. denied*, 525 U.S. 1177 (1999); *United States v. Granberry*, 908 F.2d 278, 280 (8th Cir. 1990) (school bus operator's permit); *Mylan Lab., Inc. v. Matkari*, 7 F.3d 1130, 1137 (4th Cir. 1993) (FDA approval); *United States v. Schwartz*, 924 F.2d 410, 417 (2d Cir. 1991) (export licenses).

Those circuits holding that fraudulent acquisition of a governmental grant does not fall within the mail fraud statute characterize the government's interest in a grant as merely regulatory. These courts reason that the "right to control" exercised by the government over issuance is insufficient by itself to justify the conclusion that a government has a property interest in the grant of which it can be defrauded. *See, e.g.*, *Shotts*, 145 F.3d at 1295 (rejecting argument that municipality control over issuance of bail bond license was

property right); *but see Salvatore*, 110 F.3d at 1140 ("the right to control is included in the bundle of rights known as 'property'"); and *Bucuvalas*, 970 F.2d at 945 (when city retains a right to control alienation, it holds a property right).

But it is clear that the right to control or regulate is only the minimum interest a government has in the grant of a permit or license. The right to control is by no means the maximum interest, the only incident of property that can be associated with governmental grants. If the Court declines to hold that all grants are property in the hands of the government, then in order to determine whether any particular governmental grant is property prior to its issuance, it is necessary to review the other incidents of property held by the government. Indeed, a number of different factors have been held to implicate property rights in the government prior to the issuance of a governmental grant.

A. An Income Interest/Proprietary Interest In The Activity Conducted Under The Grant Establishes A Property Interest In The Grant

Even circuits which have concluded that a simple permit is not property prior to its issuance, have reached the opposite result when more than just the right to regulate is at stake. In *Borre v. United States*, 940 F.2d 215, 219-220 (7th Cir. 1991), the Seventh Circuit upheld a mail fraud conviction based on the fraudulent acquisition of a municipal cable franchise. The court distinguished a franchise from a mere regulatory license in part because a franchise is a right that belongs to the government, and also because the government can expressly participate in and operate a franchise. In other words, the government has more than a

mere regulatory role in deciding to whom a franchise is issued and how it is operated.

The Fifth Circuit weighed similar factors in *United States v. Salvatore*, 110 F.3d 1131, 1141 (5th Cir. 1997), and concluded that the issuance of a video poker license cannot be equated to a mere regulatory interest because the issuance of this license "evinces the State's intent to participate in that industry." Moreover, the Fifth Circuit concluded that the state of Louisiana, which takes an income interest in the proceeds of activities conducted under the license, "has a direct and significant financial stake in its role as issuer of the licenses." *Id.* at 1142. These incidents of property – taking a proprietary role or an income interest – justify concluding these governmental grants are property within the meaning of the mail fraud statute.

B. The Work Investment In Creation Of The Right Establishes A Property Interest

Courts have also recognized that the work investment in the creation of a right can show there is a property interest within the meaning of the mail fraud statute. In *United States v. DeFries*, 43 F.3d 707, 711 (D.C. Cir. 1995), the D.C. Circuit commented that when a mere regulatory interest is at stake, the issuer of a license can protect itself against the wrongful issuance by merely revoking or canceling the license. *Id.* at 710. Conversely, when substantial resources are committed to the creation of the "license," mere revocation of the license cannot undo the harm related to its fraudulent issuance.

The value of the license as property to its issuer is shown in part by the work investment dedicated to its creation. *Id.* at 711. For example, the ministerial paperwork in determining that the proper fee has been paid and the

blanks filled in on a taxi license are nowhere near the detailed examination and review associated with granting a patent.

C. The Exchange Of Bargained-For Consideration Establishes A Property Interest

One panel of the Second Circuit has commented that property rights arise in the government when a permit issues as a result of a bargained-for exchange between the applicant and the government and, although not precedential, its reasoning is persuasive. In *United States v. Novod*, 923 F.2d 970, *rev'd in part on other grounds*, 927 F.2d 726 (2d Cir. 1991), the panel recognized that property rights spring up when an applicant petitions the government for a permit:

> Without the agency's assent, the permit remains with the agency. The [application] process is tantamount to a contractual transaction where a buyer and seller agree on a mutually satisfactory exchange of consideration. . . . The bargained-for exchange, in essence, would have been permit for promise. Thus construed, the permit constitutes property within the reach of the fraud statutes.

Id. at 974.[8] Thus, the exchange of consideration – the giving up of some right in exchange for receiving the benefits of the bargain – justifies the conclusion that there is a property interest properly subject to the mail fraud statute.

---

[8] Notwithstanding the reasoning set forth so persuasively by the panel in *Novod* and its disagreement with the precedent in the Second Circuit, the panel was obligated to follow the precedent of its Circuit set out in *United States v. Schwartz*, 924 F.2d 410 (2d Cir. 1991), and therefore reversed the mail fraud conviction at issue. *United States v. Novod*, 923 F.2d 970, 972, *rev'd in part on other grounds*, 927 F.2d 726 (2d Cir. 1991).

II. PATENTS ARE A SPECIAL FORM OF GOVERNMENTAL GRANT AND EXEMPLIFY WHY THE 'CHARACTER' OF THE GRANT IS KEY TO DETERMINING ITS PROPERTY INTERESTS

Notwithstanding the foregoing, Petitioner in this case would have the Court rule that licenses are never property for purposes of mail fraud.[1] In support of that proposition, the Petitioner has drawn on the Federal Circuit's opinion in *Samsung* for support, noting that the Federal Circuit "held that governmental actions similar to the issuance of a license do not affect the government's interests as a property holder." Pet. Br. at 10 (citing *Semiconductor Energy Lab. Co. v. Samsung Electronics Co.*, 204 F.3d 1368, 1380 (Fed. Cir. 2000)).

Petitioner acknowledges, however, that *Samsung* did not "deal[] with licenses per se." Pet. Br. at 21. Indeed, it is this acknowledged difference in the character of governmental grants that militates in favor of treating each grant individually on its own merits. As the following discussion will show, patents are a special form of governmental grant and exemplify why the 'character' of the grant must be examined.

While all grants involve some property rights, a patent unquestionably embodies valuable, transferable property rights enforceable even against the government. *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415 (1945) ("That a patent is property, protected against appropriation both by individuals and by government, has long been settled."). The nature of those rights is unique. Unlike an ordinary license (which can reflect mere leave to do some thing the licensor could prevent), a patent is a grant from the

government, conveying and securing to an inventor an exclusive right. 35 U.S.C. § 154.

In order to receive the benefit of that exclusive right, an inventor must make a choice between holding his invention as a trade secret, or revealing it to the world through a patent. "Once an inventor has decided to lift the veil of secrecy from his work, he must choose the protection of a federal patent or the dedication of his idea to the public at large." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 149 (1989). If the inventor chooses to seek the protection of the federal patent system, he enters into a "carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years." *Id.* at 150-51.

The patent application process is thus a bargained-for exchange in which consideration flows in both directions. Indeed, in order to issue a patent, "the public has paid the congressionally mandated price for [the future] disclosure." *Id.* at 152; *cf.*, *United States v. Novod*, 923 F.2d 970, 974 *rev'd in part on other grounds*, 927 F.2d 726 (2d Cir. 1991) ("The bargained-for exchange, in essence, would have been permit for promise. Thus construed, the permit constitutes property within the reach of the fraud statutes.").

There are other unique aspects to the patent context. The grant received by the issuance of a patent is much more than a license to practice, or even a recognition of the inventor's novel contribution to the progress of the useful arts. *See* U.S. CONST. art. I, § 8. Rather it is the right to exclude others from making, using, or selling the claimed invention. The government's promise on issuance of a patent is not just a "promise not to interfere," it is a promise to aid in the enforcement of the right of the patentee – including

against the government itself – with respect to practicing the claimed invention.

In dissenting, in part, in *Borre v. United States*, 940 F.2d 215, 220 (7th Cir. 1991), to the proposition that franchises could not be equated to licenses, Judge Easterbrook noted that "licenses improperly issued do not diminish any of the government's interests except that in the accurate enforcement of the law." *Id.* at 225 (Easterbrook, J., concurring in part and dissenting in part). If Judge Easterbrook's test were the litmus, whether the government has a diminished interest as a result of the fraud that induces the issuance of a governmental grant, then certainly the fraud that causes the PTO to issue an unwarranted patent passes that test. By approving the issuance of a patent, the government affirmatively chooses to subject itself to suit so that the benefits of the invention can be revealed to the public. The government's rights are clearly diminished.

Moreover, the government's process for issuing a patent requires far more than a mere ministerial effort. Enormous resources are dedicated to ascertaining the validity of an application. This expenditure of time, effort and expense, is an additional reason to recognize the government's property interest in a patent. *Cf. United States v. DeFries*, 43 F.3d 707, 711 (D.C. Cir. 1995). The "price" the government pays for entering into the patent bargain is significant. Not only does the government invest time and resources in examining the application, it grants a right of exclusion, and waives its sovereign immunity from suit for infringement in exchange for the ultimate release of the patented information. *See* 28 U.S.C. § 1498. The government's interest when issuing a patent is thus far more than regulatory. It is proprietary. It results from an exchange of consideration between the government and the patentee. If the federal government is fraudulently induced to enter into

and complete the terms of its bargain, it has been defrauded of property for purposes of the mail fraud statute.

CONCLUSION

Holding that all licenses and grants are property in the hands of both the government as well as the grantee, would make for a logical, uniform rule that encourages lawful conduct and the equal administration of justice. At a minimum, however, the property rights held by a government prior to issuance of governmental grants represent a continuum, ranging from mere regulatory interests to highly proprietary interests (video poker licenses) and interests which arise as a result of bargained-for exchange of consideration (patents). When heightened property interests are invoked, they clearly satisfy the purposes of and, hence, should be subject to the mail fraud statute. Samsung urges the Court to hold that governmental grants are "property" for purposes of mail fraud. However, should the Court decline to adopt such a rule, Samsung urges the Court to instruct that the character of a governmental grant must control whether fraudulently inducing its issuance can fall within conduct proscribed by the mail fraud statute.

Respectfully submitted,

RICHARD L. STANLEY
HOWREY SIMON ARNOLD
& WHITE, LLP
750 Bering Drive
Houston, Texas 77057
(713) 787-1400

CECILIA H. GONZALEZ
HOWREY SIMON ARNOLD
& WHITE, LLP
1299 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 783-0800

DAVID J. HEALEY
Counsel of Record
GARY J. FISCHMAN
LISA S. MCCALMONT
GOLDSTEIN & HEALEY L.L.P.
1177 West Loop South, 10th Floor
Houston, Texas 77027
(713) 877-1515

Attorneys for Amicus Curiae
Samsung Electronics Co., Ltd.

AUGUST 2, 2000

10